

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7204
BILL NUMBER: HB 1574

DATE PREPARED: Jan 25, 2001
BILL AMENDED:

SUBJECT: User Fees for Police and Fire Pensions.

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FUNDS AFFECTED: <u>X</u>	GENERAL	IMPACT: State & Local
X	DEDICATED	
	FEDERAL	

Summary of Legislation: This bill permits a local unit of government to impose a user fee on all parcels of real property to fund police and fire pension obligations, and prohibits a unit that imposes the user fee from levying a property tax for that purpose. It reduces the maximum permissible property tax levy of a unit that imposes a user fee by the amount previously levied for police and fire pension obligations. The bill allows for the annual amount of revenue to be raised by the user fee to be recommended by the board of trustees of the pension fund and approved by the legislative body of the unit. It also allows the legislative body to choose to collect the user fee on the bills of either the electric utility or the water utility and sets the rate of the user fee. The bill establishes a procedure for enforcement of the payment of user fees and penalties. It authorizes payments from the state general fund in tax increment financing allocation areas if the elimination of property taxes for pensions would jeopardize repayment of bonds or other obligations.

Effective Date: July 1, 2001; January 1, 2002.

Explanation of State Expenditures: The bill authorizes payments from the state General Fund to tax increment financing allocation areas if the elimination of property taxes for pensions would jeopardize repayment of bonds or other obligations. *The revenue raised in the allocation areas from the police and fire pension fund rates is about \$2.1 M statewide.* It is not possible to determine if imposition of a user fee instead of a property tax levy would jeopardize repayment of bonds or other obligations for the tax increment financing allocation areas. The provision would probably have minor fiscal impact.

The reduction of property taxes due to the possible imposition of a user fee for police and fire pensions would reduce the state's expense for property tax replacement credits (PTRC). PTRC is paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any PTRC savings would ultimately accrue to the General Fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Local police and fire pension levies were approximately \$73.4 M for CY 2000. The bill would allow the local units to impose a user fee on electric or water bills to fund police and fire pensions. The impact would depend on the number of units that choose to fund police and fire pensions with a user fee instead of property taxes. The maximum levy of a unit is reduced by the amount the unit levied for police and fire pensions the prior year.

The bill would have an impact on individuals that are currently exempt from property taxes, churches, governments, and schools. These individuals currently do not pay property taxes to fund police and fire pensions, but would under the bill be required to pay the user fee. The revenue for police and fire pensions would not be subject to the civil property tax controls and might grow at a rate greater than 5%. (Currently, if police and fire pensions grow faster than the allowable growth in the unit's maximum levy, then the unit has to reduce the growth in other funds.)

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: Local Units.

Information Sources: Local Government Database.